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Bulgaria

Grain and Feed

Grain deficit. Economic impact.

2007

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Report Highlights:
Current wheat and barley deficit is forecast to expand to the corn and sunflower crop, adversely affected by record July heat. Bulgaria faces serious challenges related to skyrocketing bread prices and the negative effects on the livestock industries. The local Intervention Agency is not yet in operation, imports of malting barley and feedstuffs are on the horizon, and domestic support funds for the fall planting are minimal. This situation will undoubtedly hurt the economic performance of the entire agricultural sector in 2007.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Sofia [BU1]
[BU]

Summary

The MY 07/08 might be the most difficult year for the grain/oilseeds and related sectors over the past 17 years in Bulgaria. The grain deficit is going to have a negative effect on all related industries and investments as well as notable social and economic impact. The first products which reacted to the skyrocketing grain prices were bread and beer, they are likely to be followed quickly by vegetable oils, dairy and meat products, and biofuels. Since it is the first year when Bulgaria operates on the single EU market, it is remains unclear how the industry and politicians will address the current deficit issues.

Supply

As of mid-July, barley and wheat harvest is practically completed but no official data has been released. The latest MinAg figures (July 16) show the following:

- 99.6% of barley area harvested, average yield 2.16 MT/HA, estimated total production of 358,000 MT - 370,000 MT;
- 94% of wheat area harvested, average yield of 2.10 MT/HA, production of 2.1-2.2 MMT. Estimated total production of 2.2 – 2.3 MMT.

Parallel survey of the Grain Farmers Association showed similar results – harvested 99% of barley, 95% of wheat and 86% of rapeseeds, with average yields of 2.38 MT/HA for barley; 2.01 MT/HA for wheat and 2.36 MT/HA for rapeseeds.

Extremely high temperatures in July severely hit corn and sunflower crops. The highest were the temperatures in the Danube plain, the heart of the grain/oilseeds basket, 39 to 44 C. According to the Bulgarian meteorologists, July 2007 was the hottest month for the last 100 years.

Although there are still no industry or official estimates at this point, the forecast is for 35% - 50% lower corn and sunflower crops. Some farmers repot 80% losses for corn. Agricultural organizations anticipate 500 leva (250 Euro)/MT post-harvest price for sunflower and 400 leva (200 Euro)/MT for corn.

Quality

Farmers and traders agree that this year wheat quality is much better than in the previous years. Industry reports gluten content at 22-28, hectoliter weight 78-84, and protein 12%-14%. Late May/early June rains, however, negatively affected barley quality which stimulates demand for imported better quality malting barley.

Prices

For the first time over the past 15 years, wheat from the new crop is traded at higher than old crop prices. Post-harvest prices started form 150 Euro/MT to reach 180 Euro/MT at mid-July, with expectations for 200 Euro/MT. Wheat flour prices are at 650-700 leva/MT (325-350 Euro/MT). The market is overheated and rumors about new higher price levels are feeding the tension. Farmers are reluctant to sell and wait until they get the maximum possible price for their wheat. Hot July weather killing corn and sunflower crops sustains price expectations. Many farmers say "this year, my wheat is my gold".

Trade

According to the MinAg, in June, 42,000 MT of wheat was exported to extra – EU destinations, and another 52,000 MT to EU MS, or total 94,000 MT were exported before the new crop year from MY06/07 stocks. Reportedly, much, if not all wheat exported in May/June is from the state stocks released to the market by the State Reserve Agency in March/April (see BU7009). Farm organizations claim that this deal was shady, and that buyers will not restore these stocks to the Reserve as provided by the law (reportedly, only 7,000 MT were refilled to date). Thus, the release of about 100,000 MT of government wheat stocks have resulted in record profit for buyers; and reportedly, for some government officials. No wheat stocks have remained for intervention. There is unofficial information that State Reserve wheat stocks are less than 150,000 MT, and corn stocks are at 30,000 MT.

Now when the wheat prices increase daily, feed manufacturers, livestock farmers, traders and millers started to raise concerns over unforeseeable price levels and to appeal for a grain intervention of 100,000 MT. Prospects for low corn and sunflower crops make wheat intervention critically important. However, the Intervention Agency plans to start operating only in the fall, and in the meantime, the State Reserve Agency announced no plans for sales.

The MinAg response to the appeals of the livestock farmers was to actively participate in EU tenders and buy corn from the Hungarian Intervention Agency using current regulations – Regulations 712/June 22, 2007 and 843/July 17, 2007.

The MinAg reported available stocks at public warehouses (not counting pipeline and on-farm warehouses) as of June 30, at 150,000 MT of wheat (170,000 MT according to other sources); 114,000 MT of corn and 26,000 MT of sunflower.

In July, the market was flooded with rumors about significant wheat and barley exports from the new crop. According to traders, MY07/08 wheat is being sold to Romania and Greece. Barley is exported to Saudi Arabia, estimated annual exports are between 70,000 MT and 120,000 MT.

Domestic support

Total over 6,000 applications were submitted by drought affected farmers. In over 400 cases, the crops were completely devastated: 18,500 HA of wheat and 4,700 HA of barley. These farmers will start receiving compensation is early August.

Farmers whose crops were seriously damaged by drought but less than 100%, will be compensated under EC 1857/2006. These are over 5,000 farmers cultivating 403,000 HA (about 40% of total area) of wheat and 65,000 HA of barley (about 30% of total area).

According to the last official information, the GOB will have the right to provide compensation up to 3,000 Euro/farmer without a special notification/approval by Brussels. Regarding higher drought compensation, 1860/2004/EC should be applied and the respective GOB decision in this regard is expected soon.

In addition to the above described compensation, farmers will have access to two newly approved low rate credit lines: for purchase of wheat seeds; and for purchase of fertilizers for wheat production MY08/09. As of July 6, more than 2,800 farmers applied for credits to purchase wheat planting seeds for 642,000 HA. About 3,000 farmers applied under the program for purchase of fertilizers for 758,000 HA of wheat. The MinAg has allocated total 7.5 million Euro for these two credit lines.

The MinAg and its paying Agency closed an agreement with 21 commercial banks to issue certificates to registered farmers which are eligible and likely approved for direct SAPS subsidies. Framers will be able to use these certificates, issued by the Paying Agency, as a guarantee in order to apply to the commercial banks for various credit programs before they get direct subsidies (most likely by December). This way, the MinAg facilitates easier access of farmers to funds for indirect support of fall crops planting.

Nevertheless, various agricultural organizations predict about 30% bankruptcy rate for grain and livestock farmers, especially if no wheat intervention and reasonable price imports of feedstuffs are executed. In June/July, farmers also reported higher than usual slaughter rate which is likely to continue throughout the year. The Association of Pork Producers forecast 30% decline in swine numbers.